

Message Text

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SUBJ: YUGOSLAVIA ADOPTS FURTHER STABILIZATION

MEASURES

REF : BELGRADE 3933

SUMMARY: YUGOSLAV HAS ADOPTED NEW CREDIT, TAX, PRICE AND INVESTMENT MEASURES IN EFFORT TO SLOW INFLATION, STIMULATE CONSUMPTION OF CERTAIN CONSUMER GOODS AND STABILIZE ECONOMIC PERFORMANCE. REPUBLICS AND PROVINCES ARE TAKING STEPS TO SLOW GROWTH OF PUBLIC REVENUES AND EXPENDITURES. END SUMMARY.

1. GOY HAS ENACTED NEW MEASURES TO SLOW PRICE RISES AND STIMULATE CONSUMPTION OF SOME CONSUMER GOODS. THESE MEASURES INCLUDE: (A) EASING CREDIT REGULATIONS FOR PURCHASE OF FURNITURE, ELECTRIC APPLIANCES, TEXTILES AND OTHER CONSUMER PRODUCTS FOR WHICH SLACK DOMESTIC DEMAND IN FIRST HALF '75 HAD CAUSED SIZEABLE INVENTORY BUILDUPS, AND (B) RE-

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DUCING BASIC TURNOVER TAX ON SAME CATEGORIES OF CONSUMER

GOODS FROM 14 PERCENT OR 12.8 PERCENT TO 8 PERCENT. REPUBLICS, PROVINCES AND OPSTINAS ARE BEING PRESSURED TO UNDERTAKE SIMILAR REDUCTIONS IN THEIR TAX RATES.

2. IN ORDER BETTER CONTROL STRUCTURE AND LEVEL OF INVESTMENT SPENDING, A NEW INVESTMENT LAW REQUIRING A 50 PERCENT DEPOSIT ON NON-ECONOMIC SECTOR INVESTMENT HAS BEEN PASSED AND PUBLISHED IN OFFICIAL GAZETTE NO. 36. (SEE SEPTTEL.)

3. TO SLOW EXCESSIVE GROWTH PUBLIC REVENUE AND SPENDING, ALL REPUBLICS AND PROVINCES EXCEPT MACDEONIA HAVE ENACTED PROGRAMS THAT EMPOWER THE LOCAL PUBLIC ACCOUNTING SERVICE TO PREVENT EXCESSIVE GROWTH OF PUBLIC REVENUES.

4. A NEW PRICE REGUALTION HAS BEEN RECOMMENDED THAT WILL REQUIRE PRICES OF DOMESTIC PRODUCTS TO BE LOWERED WHEN THERE IS A DROP IN THE WORLD MARKET PRICE FOR THE PRODUCT OR A DECREASE IN THE PRICE OF RAW MATERIALS USED IN ITS PRODUCTION. WHILE CONFUSING, THIS RECOMMENDATION IS CLEARLY MEANT TO PRESSURE DOMESTIC PRODUCERS TO BRING THEIR PRICES IN LINE WITH WORLD PRICES.

5. COMMENT: THE REDUCTION IN BASIC TURNOVER TAX (WHICH MUST BE TRANSLATED INTO LOWER PRICES) COMBINED WITH EASIER CREDIT SHOULD STIMULATE SALES OF KEY CONSUMER ITEMS, DRAW DOWN LARGE INVENTORIES AND REDUCE THE POSSIBILITY OF PRODUCTION CUTBACKS IN THOS INDUSTRIES. LOWER PRICES SHOULD MODERATE RISE IN COST OF LIVING WHICH INCREASED ABOUT 13 PERCENT IN FIRST SIX MONTHS. IT SHOULD BE NOTED THAT FEDERAL AUTHORITIES REPORTEDLY DESIRED WIDER RANGING TAX REDUCTIONS BUT WERE UNABLE TO SECURE AGREEMENT FROM THE REPUBLICS AND PROVINCES. FURTHER TAX REDUCTION, INCLUDING REPUBLICAN AND OPSTINAS TAXES, WILL BE A PRIORITY ITEM ON THE FALL AGENDA OF THE FEC AND FEDERAL ASSEHWLY. THERE ARE ALSO REPORT THAT MANY DOMESTIC PRICES THAT ARE HIGHER THAN WORLD MARKET PRICES WILL BE LOWERED BY "AGREEMENTS" IN THE FALL. THE NEW INVESTMENT LAW MAY BE VALUABLE ADDITON TO PREVIOUS MEASURES IN GOY'S EFFORTS TO CHOK OFF NON-ECONOMIC INVESTMENT AND CHANNEL NEW INVESTMENT INTO PRIORITY SECTORS. GOY EXPECTEN INVESTENT CONTROLS TO REDUCE INFLATIONARY PRESSURES, IMPROVE LIMITED OFFICIAL USE

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DOMESTIC LIQUIDITY, AND IN LONGER RUN, HARMONIZE STRUCTURE OF ECONOMY. ACTION BY THE REPUBLICS AND PROVINCES EMPOWERING THE LOCAL PUBLIC ACCOUNTING SERVICE TO STEP IN WHEN REVENUE GROWTH EXCEEDS AGREED LIMITS IS OVERDUE, BUT PROGRAMS DIFFER AMONG REPUBLICS AND DETAILS OF IMPLEMENTATION REMAIN TO BE WORKED OUT. THESE LATEST MEASURES APPEAR POSITIVE BUT NEITHER INDIVIDUALLY NOR COLLECTIVELY DO THEY MEET THE CHALLENGES OF YUGOSLAVIA'S ECONOMIC PROBLEMS. HOWEVER,

THEIR ADOPTION SEEMS TO US FURTHER INDICATION OF THE FEDERAL
AUTHORITIES' DETERMINATION TO ACT DECISIVELY. THEIR INCOMPLETE
CHARACTER SUGGESTS THE URGENCY FELT AT THE FEDERAL LEVEL HAS NOT
YET BEEN TRANSLATED TO THE REPUBLICS AND PROVINCES. WE EXPECT
NEW STABILIZATION INITIATIVES IN THE FALL, ACCOMPANIED BY GREATER
EFFORTS BY LCY TO ASSIST IN THE IMPLEMENTATION OF ECONOMIC
POLICIES.

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